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THE COMPTROLLER GENERAL OF THE UNITED STATES,  
ELMER B. STAATS, BEFORE THE EXECUTIVES' CLUB OF CHICAGO  
CHICAGO, ILLINOIS  
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"PUBLIC CONFIDENCE IN GOVERNMENT  
AND THE NEED FOR ACCOUNTABILITY"

I can think of no better way to underscore the importance of my subject today than to highlight the severity of the fiscal problems facing the Federal Government. Increasingly, fiscal decisions made in Washington are playing a part, directly or indirectly, in business investment decisions, pricing decisions, wage and salary decisions--indeed, the decisions of individuals in all walks of life. There must be confidence, therefore, that governmental fiscal decisions are made wisely, openly, and with the greatest possible participation by those affected by them. And the best way to insure that this objective is achieved is to start by an understanding of the facts:

--In the current fiscal year, which ends next June 30, the Government will incur a deficit forecast in the range of \$30 billion to \$35 billion.

--Last year, the deficit was \$23 billion.

--The year before that, the deficit was \$23 billion.

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- Thus, in 3 years, we will have cumulative deficits of more than \$80 billion. This compares to an cumulative deficit of \$58 billion in the entire prior 10-year period.
- In the 12 years 1961 through 1972, we have had a budget surplus in only one year.
- The President's January budget which called for expenditure of \$246 billion was \$10 billion that for over the previous year and is now estimated at \$256 billion. This is more than twice the Federal spending rate of only 10 years ago.
- The Congress is in the process of approving an increase in the Federal debt limit to \$465 billion.

Startling and sobering as these facts may be, they do not tell the whole story. More important is the fact that nearly three-fourths of the current budget is fixed by legislative mandate or earlier decisions for such programs as Medicare, urban renewal, farm subsidies, and the completion of defense contracts.

It appears that these same conditions will continue. The January budget estimated that, if economic conditions are good and we achieve an unemployment rate of 4 percent, present tax laws will generate about \$70 billion in new Federal revenues in the next 4 years. Yet all except \$5 billion of the amount, according to the President's estimate, will be required to pay for the growth in the cost of existing programs plus the new ones which he proposed to the Congress. Conversely, if economic conditions are less favorable, the revenue growth will be lower and expenditures for programs such as unemployment compensation and Medicaid will be higher.

An illustration of the extent to which expenditures become "fixed"--or, as some people prefer to call it, "uncontrollable"--is reflected in the Federal expenditures for programs which support the income of individuals, such as veterans' compensation, military retirement, railroad retirement, Social Security, and Medicare. These programs, which totaled less than \$4 billion in 1950, had grown to nearly \$17 billion in 1960, nearly \$50 billion by 1970, and this year are estimated at \$72.6 billion. If one were to add other income-support programs, such as public assistance, housing subsidies, student loans, and farm price supports, the increase from 1950 to 1973 is more than tenfold and represents over \$100 billion, about 40 percent of the President's current budget. These programs are not only politically sensitive but are highly important in consumer income and, hence, have an increasingly important effect on the economy.

These conditions are the inevitable result of the most dramatic growth in non-defense-spending programs, in the past 10 years, which we have experienced in recent history--\$50 billion in the past 4 years. These programs, generated in both the executive and the legislative branches, come, to a large extent, from the growing pressures of a society which is becoming increasingly urban, increasingly complex, and increasingly dependent upon Government to provide the stimulus for employment and economic growth. But they are also the result of a political system and a political environment in which the executive and the legislative branches are vying with each other for political support by offering more and larger programs without facing up to the realities

that such programs can only be financed through new taxes or through borrowing.

Small wonder then that we hear increasing reference to the need for new taxes:

--from the ranking Republican on the House Ways and Means Committee, Representative John Byrnes of Wisconsin, who is quoted in the press as saying "We're going to have a tax increase." The only question, he says, is "how big will it have to be?"

--from Representative Wilbur Mills, the Democratic Chairman of the same Committee, who says that anyone claiming that the Federal tax burden will not rise is "whistling in the dark."

--from Paul McCracken, former chairman of President Nixon's Council of Economic Advisors, who says that "President Nixon, if reelected, will have to ask for a tax boost."

And that is why the Democratic Congressional leaders are in a continuing debate with the White House as to who is responsible--the White House or the Congress--for increases in Federal spending, a debate which few understand and even fewer are convinced as to who is right.

It is not my purpose today to attempt to resolve this debate. Nor is it my purpose to make a judgment as to whether programs should be cut back or taxes increased. Rather, it is my purpose to emphasize that we have yet to find the political discipline, and perhaps even the right machinery, to make certain that each new program--each new spending increase--is measured against the benefits which may flow from these increases. We can all agree with former

Director of the Budget and now Secretary of the Treasury George Shultz when he told a congressional committee a few days ago that, if we insist on pushing up spending, "it's got to come out of the American people sooner or later," and we can agree with President Nixon's 1973 budget message when he says:

"A strong fiscal discipline will be necessary in the years ahead if we are to preserve the buying power of the dollar. New spending programs must be evaluated against the most stringent of standards: *do they have enough merit to warrant increase in taxes or elimination of existing programs?*"

But the dilemma is underscored by the fact that, in the same budget message, the President made numerous new proposals for substantially increased spending:

- a \$6.3 billion increase in military spending, much of it representing the additional cost for an all-volunteer Army;
- a request for nearly half a billion dollars to start replacing the present welfare system with the President's proposed work and welfare mixture for recipients, called "workfare;"
- nearly \$600 million for intensified efforts to curb narcotic traffic and to rehabilitate addicts;
- new commitments to the aging through a variety of programs which he described as "long overdue;"
- an increase of \$1.4 billion over 1972 for scientific research and technology;
- more than \$12 billion in budget authority for veterans benefits plus another billion for various types of improvements in hospitals and their services;
- general revenue sharing, proposed to rise from \$5.3 billion to \$7.5 billion in the next few years;

- special revenue sharing, growing from \$714 million to \$2.9 billion;
- family health insurance, costing eventually \$2.1 billion;
- social security reforms, starting at \$3.5 billion and growing to \$10.1 billion; and,
- Medicare changes, increasing costs from \$500 million to \$2.6 billion.

These are the more costly of the legislative proposals of the President. But there are others.

There is some comfort when we view the trend of rising Federal costs from a different perspective--as a percentage of the gross national product (GNP).

- In 1960 Federal expenditures accounted for 19 percent of GNP.
- In 1965 Federal expenditures accounted for 20 percent of GNP.
- In 1970 Federal expenditures accounted for 22 percent of GNP.

Even so, Federal expenditures rose at a faster rate than any other category of expenditures which make up the GNP.

Considering governmental expenditures from the standpoint of their effect on the economy, particularly in a period of inflationary pressures, we cannot overlook the fact that State and local government expenditures have increased much more rapidly than those of the Federal Government. When State and local government expenditures are added to those of the Federal Government, the total represents over 33 percent of the GNP which means that in recent years the governmental sector in the American economy has been growing twice as fast as the private sector.

The President's budget notes that State and local expenditures since World War II "have increased 12-fold, from a mere \$11 billion in 1946 to an estimated \$132 billion in 1970." By way of comparison he points out that "in that same time our gross national product, our personal spending, and even spending by the Federal Government have not climbed at even one-third that rate."

Why is this?

#### THE BURDEN ON STATES AND CITIES

At a risk of oversimplifying my answer, the reason essentially is that the demands for increased governmental services in our country have been much heavier in those areas of State and local governmental responsibility than in the area of Federal responsibility. The great bulk of the domestic functions of government has always been carried by the States and localities and, despite the visibility of wars and foreign affairs, it is in the domestic arena that the most rapid increases in the public expenditures have occurred.

Public demands for services that cities provide-- education, police and fire protection, public welfare, water and sewage services, parks and recreation, and trash removal-- have been increasing dramatically each year; and the end is not in sight.

Mayor after mayor has come before committees of the Congress to testify that the real estate property tax, basic as it has been to municipal financing, can no longer provide the tax dollars that their cities require. Meanwhile, we read of revolts by the real estate taxpayers in many parts of the country.

And now we have challenges from courts in California, Minnesota, Texas, and New Jersey. Four courts have held that public schools may not be financed from real estate taxes because the system is unfair to less affluent communities which cannot provide as high a level of education as their wealthy neighbors in the suburbs.

There is no longer any question about the validity or the urgency of the pleas of the nation's mayors for help. Up to now we have "muddled through," as the British say, but we cannot sidestep the essential problems of rising costs of local public services and inadequate sources of revenue--largely as a result of heavy movement of population into the large cities.

#### THE IMPORTANCE OF GRANT PROGRAMS

The Federal Government has responded to this need, chiefly through funds provided by grant-in-aid programs. In 1930, at the beginning of the Great Depression, the Federal Government's grants to States numbered only 10 and amounted to less than \$100 million a year. By 1950 the Federal Government had 71 grant programs, costing \$2 billion. In 20 years the number has increased to 530 programs or more, depending upon definition, costing \$24 billion annually. Even this figure is badly out of date. Speaking in approximate terms, Federal grants totalling about \$30 billion represent over 20 percent of total State and local revenues. We can readily see, therefore, that in terms of dollar aid, the Federal Government had done a great deal to help the cities "muddle through."

These grant programs have developed in response to national as well as local needs. Medical research, interstate highways, aviation facilities, pollution control,



and a host of other programs, must involve all three levels of government. No one seriously doubts this.

--How should each be involved?

--What portion of costs should each pay?

--How can maximum reliance upon State and local governments be achieved?

These are the central questions that need more serious attention than they are getting. We have long since learned that when the Federal Government reduces its income tax--still the most equitable tax devised--it does not follow that State and local governments will levy commensurate income taxes to offset the need for Federal grants or increases in the property tax. We have long recognized that national programs cannot be achieved without national policies and national priorities. State and local governments have themselves been in the forefront, seeking Federal leadership in crime control, communicable disease control, safety for airways, and many other areas.

#### PROBLEMS IN REVENUE SHARING

More than two-thirds of the \$44 billion proposed in the Budget for 1973 for assistance to State and local governments in 1973 will be spent in, or affect directly, metropolitan areas--an increase of over \$17 billion just in the last 4 years, mainly for law enforcement and public assistance.

A portion of the total proposed outlays for aid to State and local governments is in the form of sharing of Federal revenues. This has been a controversial proposal, particularly the concept of turning Federal revenues over to State and local authorities with no stipulations or

requirements as to how they are to be used and no accountability to the Federal Government as to how they are spent.

President Nixon has argued that general revenue sharing will place greater responsibility on local governments to determine how governmental programs, largely financed by Federal appropriations, should be carried out. His message to the Congress on this subject concluded, in his words, that "the crucial question is not where the money comes from but whether the official who spends it can be made to answer to those who are affected by the choices he makes."

This is a radically different concept of accountability for the expenditure of Federal funds than has existed in the past. Bypassed will be the normal process by which the Congress authorizes the purposes for which funds are spent, appropriates funds, and then provides oversight as to the efficiency and effectiveness with which the funds are spent.

Although we all wish to cut red tape and control from Washington, we should never lose sight of the basic point--at the very heart of our tradition of accountability in the democratic process--that those who tax must also be held to account for the effectiveness with which tax funds are spent.

This past week, a columnist for a Washington newspaper wrote an article entitled "Can Congress Leave Revenue Sharing Alone?" The article posed the question of what would happen if some enterprising journalist uncovered graft or waste in the use of federally shared revenues? or what would happen if a Democratic governor launched a bold new vote-appealing program which a Republican Congressman from the same State didn't like? It predicted something along the following lines: first, a flurry of outraged statements and

requests for a General Accounting Office investigation; secondly, bills would be introduced to stop the "funny business"; thirdly, interest groups would be mobilized. Then would come a stormy committee hearing, leading up to a statement from the harrassed governor or mayor at the witness table who would say "But, Mr. Chairman, the revenue-sharing legislation gives us broad discretion," and the Chairman would interrupt to say "But we certainly didn't intend it to be used this way."

There is much validity in this prediction. In the long run, we surely can find a better answer:

- We have too many specialized grants; we have too many separate conditions and procedures. They need to be consolidated and simplified.
- Grants for specific purposes can go much further than at present in recognizing financial need, and much more can be done to delegate authority to Chicago, Cleveland, and Los Angeles.
- We can do a much better job than we have done in dividing tax sources between Federal and State and local government.
- We could save millions of dollars if the Federal Government would authorize and appropriate assistance funds for longer periods and in advance, thus enabling State and local governments to have assurance of the availability of Federal funds and thereby to administer them more economically and effectively.
- Why shouldn't the Federal Government take full responsibility for some of the programs which have been most costly to State and local governments, such as aid to families with dependent children? It is clearly a national problem and there should be a national standard of eligibility.
- Finally, there remain many opportunities for reducing the cost of State and local government. For example,

there are too many units of local government--nearly 21,000 in the Nation as a whole, averaging 91 local governments for each metropolitan area. Here in the Chicago metropolitan area, there are more than 1,100 units; Philadelphia has nearly 900; and New York has well over 500. A national organization of business leaders--the Committee for Economic Development--in reviewing this subject recently, concluded that "the existing system of overlapping local governments results in a poor match between needs and resources and perpetuates waste, inefficiency, and confusion."

#### RESPONSIBILITY OF THE CONGRESS

As we all know, it is the President, as head of the executive branch of the Federal Government, who proposes what Government programs will be undertaken. This is provided for in the Budget and Accounting Act of 1921. But it is the Congress, the legislative branch, which disposes--either accepts the President's legislative proposals, modifies or expands them, or rejects them entirely.

Contrary to widespread impression, the Congress makes a much more serious attempt--and has a far better track record--in weighing and measuring presidential appropriation requests than it gets credit for. In the 3 years 1970, 1971, and 1972, the Congress reduced total presidential appropriation requests by \$3.8 billion below the Nixon budget. The overall total appropriated in those 3 years was \$444 billion. While that means a cut of less than 1 percent, it must be remembered that, as the President's 1973 budget message pointed out:

71 percent of Federal spending is "uncontrollable"--that is, locked into the budget by previous congressional decisions.

On the basis of the record to date, the Congress will again make a substantial cut in the President's budget for 1973.

Much has been said in criticism of the Congress. We hear of such criticisms almost daily. But, having been directly concerned with budget and legislative matters in the Executive Office of the President for more than 25 years and now as Comptroller General in the legislative branch for more than 6 years, I can testify that there is no place for the blanket criticisms of the Congress of the type rendered by Mr. Ralph Nader within the past week. As a general proposition, the committees of the Congress not only make vigorous efforts to understand--but do understand--the complexities of the programs on which they are required to legislate or appropriate. The plain fact is that Government has become more complex, therefore the job of the Congress has become more complex in dealing with such matters as atomic energy, space programs, Medicare, monetary reform, pesticides, air pollution, and so on. The list is endless.

Too frequently, we think of the Congress only in its role of appropriating funds or enacting major legislation. Perhaps there has not been enough concern about the ability of the Congress to exercise adequate oversight as to whether programs, once authorized and financed, are being carried out economically and efficiently and are serving fully the purpose for which they are intended.

It would be naive to fail to recognize that special problems arise when the Congress is of one political faith and the President of another. As a minimum, the noise level associated with the charges and counter charges is increased, especially in an election year, but the more fundamental issue is whether the Congress has lost its "coordinate position" with the executive branch; whether

the Government has become too large and too complex for legislative oversight; and whether the President--thanks to television--overshadows any similar figure or group of figures in the legislative branch and thus has an overpowering natural advantage in molding public opinion.

Effective congressional oversight can serve two highly important purposes: First, it can publicize waste, mismanagement, conflicts of interest, etc., and bring pressure for corrective action. In short, it can serve to keep the administrator on his toes. Democracies through the centuries have relied on freedom of information and a free press as important ways to make government responsible to the people. Second, as programs change and as needs change, the Congress must be concerned with both their level and direction.

The General Accounting Office, of which the Comptroller General is the head, carries an important responsibility in assisting the Congress to obtain the facts, to assess the efficiency of management, and to advise the Congress on whether programs which it authorizes are achieving their objective.

As Government has expanded and become more expensive, this responsibility has increased. As an arm of the Congress, the General Accounting Office responds to requests from the Congress as a whole, from committee chairmen, and from individual members to investigate and to assess and analyze the manner in which Federal programs are being carried out by the executive agencies. Equally important, as the independent auditor of the Federal Government, our Office undertakes, on its own initiative, reviews of virtually

every Federal program, and reports to the Congress and to the public its conclusions and recommendations as to how Federal programs can be improved.

Let me illustrate.

The law requires me to prepare and transmit each month to the Congress, its committees, and members, a list of reports issued or released by the General Accounting Office in the previous month. It is a long list--GAO makes over 500 reports a year to the Congress--and I mention it today because this monthly list, which is public information, shows as graphically as anything I know, the increased complexity in the functions of Government and, hence, the greater difficulty for both legislators and citizens to understand and evaluate whether programs are needed and whether they are being well carried out.

In one recent month, for example, I reported on the following:

- An assessment of the Teacher Corps program.*
- Maternal and Child Health programs operated by the Department of Health, Education, and Welfare.*
- Narcotic Addiction Treatment and Rehabilitation programs in Los Angeles County. (This was the second of five GAO reports on programs and needs for treating and rehabilitating narcotic addicts in Chicago, New York, Los Angeles, San Francisco, and Washington, D.C.)*
- How Improved Foreign Market Analyses can Increase U.S. Exports.*
- Procurement of High-Yield Steel Plate without Competition or Cost or Pricing Data.*
- Acquisition of Major Weapons Systems. (GAO's third annual independent appraisal of problems associated with weapon systems development and procurement by the Department of Defense, one of GAO's most important reports to the Congress each year.)*

As you can readily see, reports such as these get down to the nitty-gritty problems in Government management. Some programs are more important, some more costly, and some more interesting than others; but all require capable and specialized management skills, and all affect the public directly or as taxpayers. The subjects investigated require expertise for satisfactory analysis. We report on these matters, and hundreds like them, to the Congress and its committees month after month and year after year.

PUBLIC UNDERSTANDING, PARTICIPATION,  
AND CONFIDENCE IN GOVERNMENT

None of us can fashion government in accordance with our personal wishes; few of us would expect to be satisfied with governmental performance at all times; but most of us can do a lot more in improving our understanding of the needs and problems of government and participating in citizens' groups, business organizations, and, indeed, as a voter, in seeking improvements in the processes of government. Only in this way can we ever achieve the confidence that governmental affairs are being managed as effectively as practicable.

Let me outline just a few areas to illustrate what I'm talking about. I speak principally from the perspective of the Federal Government.

*Confidence that fiscal procedures are best designed to respond to needed changes in national priorities.* Realistically, we must accept that certain costs--such as interest on the debt, which has more than doubled in the past 10 years--are not susceptible to budgetary actions year to year. Even so, too little attention has been given in the enactment of legislation which, from a practical political view, become difficult to change from year to year, particularly when individuals or



groups become wholly or heavily dependent upon such payments for their livelihood. Revenue sharing is only the most recent example of a major new Federal outlay which will not be subject to the control of the appropriations committees of the Congress.

Secondly, improvements still need to be made in congressional machinery to enable the legislative and the appropriations committees to work within the framework of overall fiscal objectives. Because so much of the budget is fixed through legislation, we need to take a fresh look at this old and difficult issue. The President reviews the budget as a whole prior to its submission to the Congress; the Congress needs some better way to review the budget as a whole.

Thirdly, we should not be hesitant to experiment with new approaches to bring about a periodic review of national priorities as reflected in the budget. The Congress has recently enacted legislation which calls for a review of Federal grant-in-aid programs every 5 years. Why not extend the same concept, perhaps with a joint executive-legislative group, to make a reassessment of the major spending programs on a periodic cycle? The General Accounting Office could make a contribution by providing the Congress with analytical data to enable judgments to be made as to whether programs are achieving their original objectives.

Fourthly, before launching major new programs which become politically difficult to change, we should make far greater use of "pilot" programs with adequate testing and evaluation by the General Accounting Office and other groups when such programs involve long-term commitments. We are

doing this with major weapon systems; the same principle can apply to welfare programs and pollution control programs.

*Confidence that programs are managed more effectively and economically.* There are few organizations, public or private, that cannot be managed more effectively and managed more economically than they are being managed. This is certainly true of the Federal Government as report after report of the General Accounting Office has pointed the way for economies ranging from the purchase and utilization of computers, which now cost the Federal Government over \$3 billion a year, to ways of increasing the return on the disposal of excess military equipment in Europe and Southeast Asia.

Other recent reports of our Office recommend that

- substantial numbers of positions occupied by military personnel be filled by civilians at lower cost;
- administration of student loan programs by the Office of Education be improved and an overall limitation on the amount a student could borrow be considered;
- more be done to insure that physicians services paid for by Medicare and Medicaid are really necessary;
- the U.S. system for appraising and evaluating Inter-American Development Bank projects and activities, largely based on U.S. financial support, be strengthened; and
- more impartial cost-effectiveness studies be made in selecting new weapons.

*Confidence in the way the Federal Government purchases the goods and services which it needs.* Since 1949, the dollar value of all U.S. purchases of supplies and equipment has increased from \$9 billion to \$55 billion. This represents almost one-fourth of the Federal Government's budget. Nearly 90 percent of these

purchases is in the form of negotiated rather than formally advertised procurement. About one-half is negotiated with a single supplier, what the trade calls sole-source procurement.

The numerous disclosures of cost overruns in weapon systems, and the failure of the Defense Department's total package procurement concept in the contract with Lockheed for the C-5A aircraft have led many people to conclude that there is room for great improvement in this area.

The many studies made by the Congress, the General Accounting Office, and the Department of Defense now recognize that the Government must have a continuing, intimate, day-to-day relationship in monitoring the development and production problems when weapon systems are being purchased which are more advanced technically than the state of the industry's art to produce them.

*Confidence in our ability to effectively measure the output or productivity of Federal employees. We are confident that we can. GAO, in collaboration with the Department of Labor and the Civil Service Commission, only recently completed a study on this subject. It showed that an index of productivity is possible for 55 to 60 percent of the 2.5 million people comprising the Federal civilian work force, and it indicated that their productivity rose about 1.9 percent per year between fiscal years 1967 and 1971.*

*Confidence in programs designed to insure public safety, health, and sanitation. Recent General Accounting Office public reports have shown that*

--inspection services by the Department of Agriculture in federally inspected meat packing plants needed tightening and other management improvements;

- similarly, deteriorating inspection services of the Food and Drug Administration of plants preparing packaged food also needed stiffening;
- more needs to be done by the Bureau of Narcotics and Dangerous Drugs to reduce the diversion of drugs manufactured legitimately into illicit channels where they become available to the young;
- the Nation's traffic safety record could be improved with stronger leadership by the Federal Highway Administration in implementing its safety program to reduce fixed roadside objects; and,
- actions are needed, and are now being taken, by the Atomic Energy Commission to improve its regulation of those licensed to use radioactive materials outside the area of constructing and operating reactors to produce electric power.

*Confidence that the laws designed to insure disclosure of Federal election campaign financing are being carried out.* This year the General Accounting Office was assigned, by the Congress, the responsibility for administering the Federal Election Campaign Act of 1971 as it pertains to candidates for president and vice president. Since April 7, all political committees in this country--national, regional, and local--supporting candidates for president and vice president have been required to provide the General Accounting Office with reports of receipts and expenditures. Each committee must report the names of those persons making contributions of \$100 or more on behalf of presidential and vice presidential candidates.

The law also provides limits on and reporting by political committees of expenditures for radio, television, and media purposes, details of which need not concern us here.

Now the principal purpose of the Federal Election Campaign Act is to create an open record of who has donated how much to what presidential or vice presidential candidate and whether or not the funds for media publicity were expended under stipulations of the law. This is a law of exposure, a record so that the people may know. It may not be a popular law among those who prefer to keep their political financial support a private matter. But, when money is donated to the cause of someone elected to run the government, it is this very privacy which creates suspicion or distrust and is presently a factor in the decline in confidence in the American governmental system.

On this strong note, I bring these remarks to a close and thank you all very much.

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